Question 3

4 points (1 + 1 + 1 + 1)

(a) 1 point:
- One point is earned for stating that real GDP will fall and the price level will rise, because the increase in the price of oil raises input costs and causes the short-run aggregate supply curve to shift to the left.

(b) 1 point:
- One point is earned for stating that real GDP will rise and the price level will fall, because the increase in labor productivity reduces unit input costs and causes the short-run aggregate supply curve to shift to the right.

(c) 1 point:
- One point is earned for stating that real GDP will rise and the price level will rise, because the increase in spending causes the aggregate demand curve to shift to the right.

(d) 1 point:
- One point is earned for stating that real GDP will rise and the price level will rise, because the depreciation of the currency will cause net exports to rise and the aggregate demand curve to shift to the right.

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(a) This would mean an increase in factor cost, which leads to a decrease in the short run aggregate supply. This will lead to a higher price level and lower real GDP.

(b) This would decrease costs, which would shift the short-run aggregate supply to the right, causing the price level to decrease and real GDP to increase.

(c) An increase in consumption, a component of aggregate demand, will cause aggregate demand to increase, which leads to an increase in both the price level and real GDP.

(d) This would mean that their exports will be relatively cheap as less of other currencies can buy 1 unit of this country's currency. Therefore, exports will increase, increasing net exports, a component of aggregate demand. Therefore, aggregate demand would increase, leading to an increase in both price level and real GDP.

Write in the box the number of the question you are answering on this page as it is designated in the exam.

3B

3

a. GDP will decrease while price level increases because crude oil is an input cost and it became more expensive so it will cause a leftward shift of the short term aggregate supply.

b. GDP will increase while price level decrease because a technological innovation will result in a rightward shift of aggregate supply by increasing labor productivity.

C. An increase in consumer spending will increase GDP and increase price level. An increase in C will increase AE which will increase AD which increases GDP and PL.

d. The depreciation of a country's currency will cause GDP to increase and price level to increase. Depreciation causes export to go up as the country's goods become cheaper relatively. An increase in export increases AE which increases AD which results in increase in PL and GDP.

Write in the box the number of the question you are answering
on this page as it is designated in the exam.

3.

(a) An increase in the price of crude oil will decrease the aggregate supply. Decrease in aggregate supply will decrease the real gross domestic product and increase the price level

(b) A technology change increasing the productivity of labor will increase the aggregate supply. Increase in aggregate supply will increase the real gross domestic product and decrease the price level.

(E) An increase in spending by consumers will increase the aggregate demand. Increase in aggregate demand will increase the real gross domestic product and price level

(d) The depreciation of the country's currency will decrease the aggregate demand. Decrease in aggregate demand will decrease the real gross domestic product and price level

Question 3

Sample: 3A
Score: 4

The student earned all 4 points for this question.

Sample: 3B
Score: 3

The student lost 1 point in part (b) for failing to explain that the increased labor productivity results in lower per-unit costs and thus a rightward shift in the SRAS curve.

Sample: 3C
Score: 1

The student earned 1 point in part (c) for correctly explaining the rightward shift in aggregate demand and for stating that this will increase both the price level and real GDP.